UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q/A
August 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission File Number 000-20848

UNIVERSAL INSURANCE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	65-0231984
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1110 W. Commercial Blvd., Suite 100, Fort Lauderdale, Florida 33309
(Address of principal executive offices)

(954) 958-1200
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ___ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of “large accelerated filer” and “accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ___ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 39,166,033 shares of common stock, par value $0.01 per share, outstanding on May 4, 2010.

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UNIVERSAL INSURANCE HOLDINGS, INC.

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Explanatory Note

Universal Insurance Holdings, Inc. ("the Company") is filing this amendment of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 ("Amended Report") to restate its Condensed Consolidated Financial Statements for the three-month period ended March 31, 2010. The Company is issuing this restatement to correct an error in the accounting for an other-than-temporary impairment ("OTTI") of an investment security at March 31, 2010 that was sold at a loss after March 31, 2010, but before the Company filed its Form 10-Q for the quarter. The Audit Committee, in consultation with management, concluded that the impairment of the investment security should have been reflected in the Company's financial statements for the quarter ended March 31, 2010. The net effect resulting from the recording of the impairment of the security in the quarter ended March 31, 2010 on net income, accumulated other comprehensive income, diluted earnings per share, and stockholders' equity is as follows:

Net income decreased by $1,362,721
Accumulated other comprehensive income increased by $1,478,917
Diluted earnings per share decreased by $0.04
Stockholders' equity increased by $116,197

Notes 1, 2, 5 and 15 to the Condensed Consolidated Financial Statements included herein also contain information regarding the nature and effect of the restatement.

For the convenience of the reader, this Amended Report sets forth the Form 10-Q in its entirety. Other than amending the disclosures relating to the restatement, no attempt has been made in this Amended Report to amend or update other disclosures presented in the original Form 10-Q. Among other things, forward-looking statements made in the original Form 10-Q are not revised to reflect events that occurred or facts that became known to the Company after the filing of the original Form 10-Q and such forward-looking statements should be read in their historical context.

The following items of the original Form 10-Q are being amended in this Amended Report as a result of this restatement:

Part I – Item 1 – Financial Statements

Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I – Item 4 – Controls and Procedures

Exhibit 31.1 – Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 – Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 – Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.1 – Schedule of Investments

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of
Universal Insurance Holdings, Inc. and Subsidiaries
Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of March 31, 2010 and the related condensed consolidated statements of operations and cash flows for the three-month periods ended March 31, 2010 and 2009. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Blackman Kallick LLP

Chicago, Illinois

May 10, 2010, except for the portions of Notes 1,
2, 5 and 15 addressing the error correction as to
which the date is August 9, 2010

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	(Unaudited and Restated) (See Note 1) March 31, 2010	December 31, 2009
Cash and cash equivalents	$228,541,314	$192,924,291
Investments		
Fixed maturities available for sale, at fair value	66,368,800	41,389,008
Equity securities available for sale, at fair value	66,087,564	73,408,002
Real estate, net	3,293,582	3,289,893
Prepaid reinsurance premiums	221,022,592	200,294,241
Reinsurance recoverables	65,035,714	91,816,433
Premiums receivable, net	38,709,483	37,363,110
Receivable from securities	12,148,475	6,259,973
Other receivables	4,201,023	5,068,367
Income taxes recoverable	3,908,997	3,211,874
Property and equipment, net	1,256,876	1,245,858
Deferred policy acquisition costs, net	12,436,392	9,464,624
Deferred income taxes	12,046,948	11,894,289
Other assets	492,641	617,337
Total assets	$735,550,401	$678,247,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$131,736,670	$127,197,753
Unearned premiums	298,317,010	278,370,544
Advance premium	23,357,329	17,078,558
Accounts payable	3,974,070	3,172,626
Bank overdraft	25,460,302	20,297,061
Reinsurance payable, net	89,208,479	73,104,595
Income taxes payable	489,967	368,968
Dividends payable	4,699,927	-
Other accrued expenses	19,279,747	20,750,385
Long-term debt	24,264,706	24,632,353
Total liabilities	620,788,207	564,972,843
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, $.01 par value	1,077	1,087
Authorized shares - 1,000,000		
Issued shares - 107,690 and 108,640		
Outstanding shares - 107,690 and 108,640		
Minimum liquidation preference - $287,240 and $288,190		
Common stock, $.01 par value	408,772	402,146

Authorized shares - 55,000,000		
Issued shares - 40,877,087 and 40,214,884		
Outstanding shares - 39,166,033 and 37,774,765		
Treasury shares, at cost - 1,711,054 and 1,809,119 shares	(7,389,416)	(7,948,606)
Common stock held in trust, at cost 0 and 631,000 shares	-	(511,110)
Additional paid-in capital	36,595,977	36,666,914
Accumulated other comprehensive (loss) income, net of taxes	(1,193,922)	563,654
Retained earnings	86,339,706	84,100,372
Total stockholders' equity	114,762,194	113,274,457
Total liabilities and stockholders' equity	$735,550,401	$678,247,300

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	(Restated see Note 1) For the Three Months Ended March 31,	
	2010	2009
PREMIUMS EARNED AND OTHER REVENUES		
Direct premiums written	$160,099,645	$145,212,145
Ceded premiums written	(127,567,966)	(95,727,857)
Net premiums written	32,531,679	49,484,288
Decrease (increase) in net unearned premium	781,884	(11,726,636)
Premiums earned, net	33,313,563	37,757,652
Net investment income	192,953	324,589
Realized gains on investments	1,287,037	1,111,333
Foreign currency gains on investments	684,247	-
Commission revenue	8,737,871	7,444,849
Other revenue	1,004,253	1,479,377
Total premiums earned and other revenues	45,219,924	48,117,800
OPERATING COSTS AND EXPENSES		
Losses and loss adjustment expenses	23,651,712	20,420,664
General and administrative expenses	10,188,649	7,515,228
Total operating costs and expenses	33,840,361	27,935,892
INCOME BEFORE INCOME TAXES	11,379,563	20,181,908
Income taxes, current	3,484,213	8,582,617
Income taxes, deferred	951,102	(838,539)
Income taxes, net	4,435,315	7,744,078
NET INCOME	$6,944,248	$12,437,830
Basic net income per common share	$0.18	$0.33
Weighted average of common shares outstanding - Basic	38,889,176	37,561,341
Fully diluted net income per share	$0.17	$0.31
Weighted average of common shares outstanding - Diluted	40,434,042	39,921,929
Cash dividend declared per common share	$0.12	$0.22

	For the Three Months Ended March 31,

	2010	2009
Comprehensive Income:		
Net income	$6,944,248	$12,437,830
Change in net unrealized (losses) gains on investments, net of tax	(1,757,576)	2,556,141
Comprehensive Income	$5,186,672	$14,993,971

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

For the Three Months Ended March 31, 2010 (Restated - see Note 1)

	Common Shares	Preferred Stock Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stock Held in Trust	Trea Sto
Balance, December 31, 2009	40,214,884	108,640	$402,146	$1,087	$36,666,914	$84,100,372	$563,654	$(511,110)	$(7,94
Issuance of common shares	1,900,206		19,001		1,858,078				(4,71
Preferred stock conversion	1,187	(950)	12	(10)	(2)				
Release of shares from SGT					939,900			511,110	(2,32
Retirement of treasury shares	(1,239,190)		(12,388)		(7,591,863)				7,60
Stock compensation plans					477,779				
Net income-(Restated see Note 1)						6,944,248			
Tax benefit on exercise of stock options					4,020,789				
Amortization of deferred compensation					224,382				
Declaration of dividends						(4,704,915)			
							(1,757,576)		

Change in net unrealized loss on invest., net of tax effect of $1,103,760									
Balance, March 31, 2010	40,877,087	107,690	$408,771	$1,077	$36,595,977	$86,339,705	$(1,193,922)	$-	$(7,38
				For the Three Months Ended March 31, 2009					
Balance, December 31, 2008	40,158,019	138,640	$401,578	$1,387	$33,587,414	$75,654,070	$24,834	$(733,860)	$(7,38
Preferred stock conversion	75,000	(30,000)	750	(300)	(450)				
Stock compensation plans					820,156				
Net income						12,437,830			
Amortization of deferred compensation					162,519				
Declaration of dividends						(8,269,932)			
Change in net unrealized gains on invest., net of tax effect of $1,595,467							2,556,141		
Balance, March 31, 2009	40,233,019	108,640	$402,328	$1,087	$34,569,639	$79,821,968	$2,580,975	$(733,860)	$(7,38

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Restated see Note 1)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net Income	$ 6,944,248	$ 12,437,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	201,523	380,427
Depreciation	146,812	101,424
Amortization of cost of stock options	477,781	820,156
Amortization of restricted stock grants	224,382	162,519
Realized gains on investments	(1,287,037)	(1,111,333)
Foreign currency gains (losses) on investments	(683,733)	17,387
Amortization of premium / accretion of discount, net	107,000	21,520
Deferred income taxes	951,102	(838,539)
Tax benefit on exercise of stock options	(3,174,153)	-
Other	(15,035)	130,119
Net change in assets and liabilities relating to operating activities:		
Prepaid reinsurance premiums	(20,728,351)	(5,193,314)
Reinsurance recoverables	26,780,719	(1,339,673)
Premiums receivable, net	(1,547,897)	(6,589,909)
Other receivables	864,550	409,604
Income taxes recoverable	3,323,665	2,482,923
Deferred policy acquisition costs, net	(2,971,768)	60,022
Other assets	119,315	(105,603)
Unpaid losses and loss adjustment expenses	4,538,917	1,728,768
Unearned premiums	19,946,466	16,919,952
Advance premium	6,278,770	4,376,045
Accounts payable	801,445	626,664
Reinsurance payable	16,103,884	28,036,181
Income taxes payable	120,999	5,989,694
Other accrued expenses	(1,470,638)	2,947,858
Net cash provided by operating activities	56,052,966	62,470,722
Cash flows from investing activities:		
Purchases of fixed maturities	(50,426,894)	(103,439,593)
Proceeds from sales of fixed maturities	25,322,048	-
Purchases of equity securities, available for sale	(35,879,591)	(65,536,507)
Proceeds from sales of equity securities, available for sale	36,447,190	9,609,255
Capital expenditures and building improvements	(146,484)	(91,723)
Net cash used in investing activities	(24,683,731)	(159,458,568)

Cash flows from financing activities:				
Bank overdraft		5,163,241		1,981,436
Preferred stock dividend		(4,987)		-
Common stock dividend		-		(3,754,217)
Issuance of common stock		7,000		-
Treasury shares on option exercise		(3,723,972)		-
Tax benefit on exercise of stock options		3,174,153		-
Repayments of loans payable		(367,647)		-
Net cash provided by (used in) in financing activities		4,247,788		(1,772,781)
Net increase (decrease) in cash and cash equivalents		35,617,023		(98,760,627)
Cash and cash equivalents at beginning of period		192,924,291		256,964,637
Cash and cash equivalents at end of period	$	228,541,314	$	158,204,010
Non cash items:				
Dividends accrued	$	4,699,926	$	4,515,715

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010
(Unaudited)

1. Nature of Operations and Basis of Presentation

Restatement of Condensed Consolidated Financial Statements

Subsequent to filing its Quarterly Report on Form 10-Q on May 10, 2010, for the quarter ended March 31, 2010, the Company determined that its investment in common stock of Direxion Daily Large Cap Bear 3X Shares (ticker symbol “BGZ”) that was in an unrealized loss position at the end of the Company’s first quarter should have been recorded as an OTTI as a result of a subsequent sale of a portion of the investment, resulting in a loss. Therefore, the Company recorded an OTTI charge of $2,407,680 and is restating its financial statements in this Amended Report. The Company will continue to monitor the fair value of BGZ, evaluate the Company’s ability and intent to hold the security for anticipated recovery in value and record additional write-downs in value, if warranted, in future periods.

The effect of the restatements is as follows:

Consolidated Balance Sheet as of March 31,2010

	As Reported	Adjustment	Restated
Income taxes recoverable	$3,971,565	$(62,568)	$3,908,997
Total assets	$735,612,969	$(62,568)	$735,550,401
Income taxes payable	$479,563	$10,404	$489,967
Other accrued expenses	$19,468,916	$(189,169)	$19,279,747
Total liabilities	$620,966,972	$(178,765)	$620,788,207
Accumulated other comprehensive (loss) income, net of taxes	$(2,672,839)	$1,478,917	$(1,193,922)
Retained earnings	$87,702,426	$(1,362,720)	$86,339,706
Total stockholders equity	$114,645,997	$116,197	$114,762,194
Total liabilities and stockholders' equity	$735,612,969	$(62,568)	$735,550,401

Consolidated Statement of Operations

	For the three months ended March 31, 2010		
	As Reported	Adjustment	Restated
Realized gains on investments	$3,694,717	$(2,407,680)	$1,287,037
Total premiums earned and other revenues	$47,627,604	$(2,407,680)	$45,219,924
General and administrative expenses	$10,377,818	$(189,169)	$10,188,649
Total operating costs and expenses	$34,029,530	$(189,169)	$33,840,361
Income taxes, current	$3,411,241	$72,972	$3,484,213
Income taxes, deferred	$1,879,864	$(928,762)	$951,102
Income taxes, net	$5,291,105	$(855,790)	$4,435,315
Net income	$8,306,969	$(1,362,721)	$6,944,248
Basic net income per common share	$0.21	$(0.03)	$0.18
Fully diluted net income per share	$0.21	$(0.04)	$0.17
Change in net unrealized (losses) gains on investments, net of tax	$(3,236,494)	$1,478,918	$(1,757,576)
Comprehensive Income:	$5,070,475	$116,197	$5,186,672

Consolidated Statement of Cash Flows

	For the three months ended March 31, 2010		
	As Reported	Adjustment	Restated
Net income	$8,306,969	$(1,362,721)	$6,944,248
Realized gains on investments	$(3,694,717)	$2,407,680	$(1,287,037)
Deferred income taxes	$1,879,864	$(928,762)	$951,102
Income taxes recoverable	$3,261,097	$62,568	$3,323,665
Income taxes payable	$110,595	$10,404	$120,999
Other accrued expenses	$(1,281,469)	$(189,169)	$(1,470,638)

Certain amounts were also restated and additional disclosures are provided in the footnotes primarily in Note 5 – “Investments”, Note 15 – “Subsequent events”, Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 4 – “Controls and Procedures.”

Nature of Operations

Universal Insurance Holdings, Inc. (the “Company”) was originally incorporated as Universal Heights, Inc. in Delaware in November 1990. The Company changed its name to Universal Insurance Holdings, Inc. on January 12, 2001. The Company, through its wholly owned subsidiary, Universal Insurance Holding Company of Florida, formed Universal Property & Casualty Insurance Company (“UPCIC”) in 1997.

Basis of Presentation

Our unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of Universal

Insurance Holdings, Inc. and its subsidiaries. We have made all adjustments that, in our opinion, are necessary for a fair statement of results of the interim periods, and all such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated financial statements should be read in conjunction with our annual audited consolidated financial statements and related notes. The condensed consolidated balance sheet at December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by GAAP. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted.

Management must make estimates and assumptions that affect amounts reported in our condensed consolidated financial statements and in disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

To conform to the 2010 presentation, certain amounts in the prior periods' consolidated financial statements and notes have been reclassified. Such reclassifications had no effect on net income or stockholders' equity.

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2009. The following are new or revised disclosures or disclosures required on a quarterly basis.

Impairment of Securities. For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of deferred income taxes (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the condensed consolidated Balance Sheet and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when the decline in fair value is deemed other than temporary. The assessment of whether the impairment of a security's fair value is other than temporary is performed using a portfolio review as well as a case-by-case review considering a wide range of factors.

There are a number of assumptions and estimates inherent in evaluating impairments and determining if they are other than temporary, including: 1) the Company's ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities or cost for equity securities; 4) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect liquidity. Additionally, once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that an impairment is other than temporary, including: 1) general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; 2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances obtained that causes a change in our ability or intent to hold a security to maturity or until it recovers in value.

The company evaluated its investments classified as available for sale and determined it held one security for which an other-than-temporary impairment existed as of March 31, 2010 which is described in "Note 5. Investments."

Fair Market Value of Financial Instruments. The Company's long-term debt was held at a carrying value of $24,264,706 and $24,632,353 as of March 31, 2010 and December 31, 2009, respectively. The fair value of long-term debt as of March 31, 2010 was estimated based on discounted cash flows utilizing interest rates currently offered for similar products and was determined to be $17,370,433 and $18,299,889 as of March 31, 2010 and December 31, 2009, respectively.

Concentrations of Credit Risk. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, premiums receivable and reinsurance recoverables.

In order to reduce credit risk for amounts due from reinsurers, the Company seeks to do business with financially sound reinsurance companies and regularly evaluates the financial strength of all reinsurers used. UPCIC's largest reinsurer, Everest Reinsurance Company, has the following ratings from each of the rating agencies: A+ from A.M. Best Company, A+ from Standard and Poor's Rating Services and Aa3 from Moody's Investors Service, Inc. As of March 31, 2010 and December 31, 2009, UPCIC's reinsurance portfolio contained the following authorized reinsurers that had unsecured recoverables for paid and unpaid losses, including incurred but not reported ("IBNR") reserves, loss adjustment expenses and unearned premiums whose aggregate balance exceeded 3% of UPCIC's statutory surplus:

Reinsurer	As of March 31, 2010	As of December 31, 2009
Everest Reinsurance Company	$204,422,914	$ 208,129,753
Florida Hurricane Catastrophe Fund	6,996,189	24,888,534
Total	$211,419,103	$ 233,018,287

As of March 31, 2010 and December 31, 2009, UPCIC did not have any unsecured recoverables from unauthorized reinsurers exceeding 3% of UPCIC's statutory surplus.

Stock Compensation. The Company periodically issues restricted common stock and grants options to purchase common stock to its directors, officers and employees. These restricted stock awards and stock option grants are recorded as compensation expense ratably over their respective vesting periods.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB ") issued new accounting guidance which expands disclosure requirements relating to fair value measurements. The guidance adds requirements for disclosing amounts of and reasons for significant transfers into and out of Levels 1 and 2 and requires gross rather than net disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance also provides clarification that fair value measurement disclosures are required for each class of assets and liabilities. Disclosures about the valuation techniques and inputs used to measure fair value for measurements that fall in either Level 2 or Level 3 are also required. The Company adopted the provisions of the new guidance as of March 31, 2010 except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are required for fiscal years beginning after December 15, 2010. Disclosures are not required for earlier periods presented for comparative purposes. The new guidance affects disclosures only; and therefore, the adoption had no impact on the Company's results of operations or financial position.

In February 2010, the FASB amended the subsequent events guidance issued in May 2009 to remove the requirement for SEC filers to disclose a date through which subsequent events have been evaluated in

both issued and revised financial statements. The amendment was effective upon issuance. The adoption of this guidance did not have an impact on the Company's consolidated financial condition or results of operations.

3. Insurance Operations

Unearned premiums represent amounts that UPCIC would be required to refund policyholders if their policies were canceled. UPCIC determines unearned premiums by calculating the pro-rata amount that would be due to the policyholders at a given point in time based upon the premiums due for the full policy term. At March 31, 2010, UPCIC serviced approximately 544,000 homeowners’ and dwelling fire insurance policies with direct unearned premiums totaling $298,317,010 and in-force premiums of approximately $581,600,000. At December 31, 2009, UPCIC serviced 541,000 homeowners’ and dwelling fire insurance policies with direct unearned premiums totaling $278,370,544 and in-force premiums of approximately $567,100,000.

The wind mitigation discounts mandated by the Florida legislature to be effective June 1, 2007 for new business and August 1, 2007 for renewal business have had a significant effect on UPCIC’s premium. The following table reflects the effect of wind mitigation credits received by UPCIC policyholders:

Wind Mitigation Credits

		Reduction of in-force premium (only policies including wind coverage)		
Date	Percentage of UPCIC policyholders receiving credits	Total credits	In-force premium	Percentage reduction of in-force premium
6/1/2007	1.9 %	$ 6,284,697	$ 487,866,319	1.3 %
12/31/2007	11.8 %	$ 31,951,623	$ 500,136,287	6.0 %
3/31/2008	16.9 %	$ 52,398,215	$ 501,523,343	9.5 %
6/30/2008	21.3 %	$ 74,185,924	$ 508,411,721	12.7 %
9/30/2008	27.3 %	$ 97,802,322	$ 515,560,249	16.0 %
12/31/2008	31.1 %	$ 123,524,911	$ 514,011,138	19.4 %
3/31/2009	36.3 %	$ 158,229,542	$ 530,029,572	23.0 %
6/30/2009	40.4 %	$ 188,053,342	$ 544,646,437	25.7 %
9/30/2009	43.0 %	$ 210,291,783	$ 554,378,761	27.5 %
12/31/2009	45.2 %	$ 219,974,130	$ 556,577,449	28.3 %
3/31/2010	47.3 %	$ 235,717,892	$ 569,870,173	29.3 %

4. Reinsurance

On March 22, 2010, UPCIC and Segregated Account T25 – Universal Insurance Holdings of White Rock Insurance (SAC) Ltd. ("the T25") mutually agreed to a Commutation and Settlement Agreement related to the Underlying Property Catastrophe Excess of Loss Reinsurance Contract originally effective June 12, 2009. A replacement contract was entered into between the parties on March 23, 2010 to maintain consistent and seamless coverage. In conjunction with the commutation, the T25 returned $12,735,734 to the Company that the Company then returned and contributed to UPCIC on March 23, 2010. The stock of T25 is 100% owned by the Company and the reinsurance transactions between it and UPCIC are eliminated in consolidation.

There have been no other material changes, during the period covered by this Report, to the Reinsurance note included in the Company's Annual Report on Form 10-K, for the year ended December 31, 2009.

UPCIC's in-force policyholder coverage for windstorm exposures as of March 31, 2010 was approximately $115 billion. In the normal course of business, UPCIC also seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance contracts. Reinsurance premiums, losses and loss adjustment expenses ("LAE") are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance ceding commissions received are deferred and netted against policy acquisition costs and amortized over the effective period of the related insurance policies.

UPCIC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers on an automatic basis under reinsurance contracts. The reinsurance arrangements are intended to provide UPCIC with the ability to limit its exposure to losses within its capital resources. Such reinsurance includes quota share, excess of loss and catastrophe forms of reinsurance. The Company submits the UPCIC reinsurance program for regulatory review to the Florida Office of Insurance Regulation ("OIR").

The Company's reinsurance arrangements had the following effect on certain items in the condensed consolidated Statements of Operations:

	Three Months Ended March 31, 2010		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 160,099,645	$ 140,153,178	$ 46,679,867
Ceded	(127,567,966)	(106,839,615)	(23,028,155)
Net	$ 32,531,679	$ 33,313,563	$ 23,651,712

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Three Months Ended March 31, 2009

	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 145,212,145	$ 128,292,195	$ 41,324,392
Ceded	(95,727,857)	(90,534,543)	(20,903,728)
Net	$ 49,484,288	$ 37,757,652	$ 20,420,664

Other Amounts:

Prepaid reinsurance premiums and reinsurance recoverables as of March 31, 2010 and December 31, 2009 were as follows:

	As of March 31, 2010	As of December 31, 2009
Prepaid reinsurance premiums	$ 221,022,592	$ 200,294,241
Reinsurance recoverable on unpaid losses and LAE	$ 64,820,752	$ 62,900,913
Reinsurance recoverable on paid losses	214,962	28,915,520
Reinsurance recoverables	$ 65,035,714	$ 91,816,433

The Company has determined that a right of offset exists between UPCIC and its reinsurers, under its quota share reinsurance treaties. Reinsurance payable to reinsurers has been offset by ceding commissions and inuring premiums receivable from reinsurers as follows:

	As of March 31, 2010	As of December 31, 2009
Reinsurance payable, net of ceding commissions due from reinsurers	$ 138,195,918	$ 105,536,847
Inuring premiums receivable	(48,987,439)	(32,432,252)
Reinsurance payable, net	$ 89,208,479	$ 73,104,595

5. Investments

Major sources of net investment income, are summarized as follows:

	For the Three Months Ended March 31, 2010		For the Three Months Ended March 31, 2009	
Cash and cash equivalents	$	18,454	$	215,983
Fixed maturities		299,629		127,716
Equity securities		9,990		96,730
Total investment income		328,073		440,429
Less investment expenses		(135,120)		(115,840)
Net investment income	$	192,953	$	324,589

As of March 31, 2010 and December 31, 2009, the Company's investments consisted of cash and cash equivalents, and investments with carrying values of $360,997,678 and $307,721,301, respectively.

Concentrations of credit risk with respect to cash on deposit are limited by the Company's policy of investing excess cash in money market accounts and repurchase agreements backed by the US Government and US Government Agency Securities with major national banks. These accounts are held by the Institutional Trust & Custody division of U.S. Bank, the Trust Department of SunTrust Bank and Evergreen Investment Management Company, LLC.

Cash and cash equivalents consisted of checking, repurchase and money market accounts with carrying values of $228,541,314 and $192,924,291 as of March 31, 2010 and December 31, 2009, respectively, held at the following financial institutions:

	As of March 31, 2010						
Financial Institution		Cash		Money Market Funds		Total	%
U. S. Bank IT&C (1)	$	0	$	71,273,420	$	71,273,420	31.2 %
Evergreen Investment Management Company, L.L.C.		0		2,909		2,909	0.0 %
SunTrust Bank		985,291		0		985,291	0.4 %
SunTrust Bank Institutional Asset Services		0		146,812,557		146,812,557	64.3 %
Wachovia Bank, N.A.		1,004,452				1,004,452	0.4 %
Bank of New York Trust Fund		0		8,027,000		8,027,000	3.5 %
All Other Banking Institutions		435,685		0		435,685	0.2 %
	$	2,425,428	$	226,115,886	$	228,541,314	100.0%

(1) Funds invested with Evergreen Investment Management Company, L.L.C.

	As of December 31, 2009						
Financial Institution		Cash		Money Market Funds		Total	%
U. S. Bank IT&C (1)	$	0	$	71,977,371	$	71,977,371	37.3 %
Evergreen Investment Management Company, L.L.C.		0		26,909		26,909	0.0 %
SunTrust Bank		1,063,785		0		1,063,785	0.5 %
SunTrust Bank Institutional Asset Services		0		102,257,833		102,257,833	53.0 %
Wachovia Bank, N.A.		489,051		0		489,051	0.3 %
Bank of New York Trust Fund		0		16,515,181		16,515,181	8.6 %
All Other Banking Institutions		594,161		0		594,161	0.3 %
	$	2,146,997	$	190,777,294	$	192,924,291	100.0%

(1) Funds invested with Evergreen Investment Management Company, L.L.C.

The Company’s investments are classified as available for sale. Available for sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders’ equity, namely Other Comprehensive Income.

During the three-month period ended March 31, 2010, the Company recognized $2,407,680 in OTTI charges related to the Company’s investment in common stock of Direxion Daily Large Cap Bear 3X Shares (ticker symbol “BGZ”). The OTTI charge reflected a write-down to 66% of cost.

The following table shows the realized gains and losses for fixed maturities and equity securities for the three-month periods ended March 31, 2010 and 2009. There were $1,287,037 and $1,111,333 of realized gains for the three-month periods ended March 31, 2010 and 2009, respectively.

	For the Three Months Ended			
	March 31, 2010		March 31, 2009	
	Realized Gains (Losses)	Fair Value at Sale	Realized Gains (Losses)	Fair Value at Sale
Fixed maturities, available for sale	$ 60,742	$ 5,961,804	$ -	$ -
Equity securities	4,109,683	36,486,448	1,111,333	9,683,316